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SIPDIS

DEPT FOR EUR/CARC, DAS KAIDANOW, INR FOR STRONSKI
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SUBJECT: C-REN-02185: AZERBAIJAN'S CONTRIBUTIONS TO
NORTHERN DISTRIBUTION NETWORK

REF: A. STATE 123007

[B](#). STATE 123740

[C](#). 08 BAKU 1140

[D](#). BAKU 923

Classified By: Charge Donald Lu, Reasons 1.4 (b), (c) and (d).

Summary

[1](#)1. (S) This cable replies to Reftel A. Azerbaijan is a critical node of the Black Sea leg of NDN. It is the one country on the route that absolutely must be transited if the leg of NDN is to bypass Russian and Iranian territory en route to theater. As of December 4, 30 percent (1,414 of 4,793) of NDN-delivered containers transited Azerbaijan, and 42 percent of the cargo presently on NDN is on the leg that transits Baku. Azerbaijan's political commitment to NDN is solid for the time being. Factors that may negatively affect that commitment are Azerbaijan's resentment of U.S. support for delinking Turkey-Armenia rapprochement from the Nagorno-Karabakh conflict and apprehension that supporting U.S. efforts will provoke terrorism inside Azerbaijan. Baku would likely be very sensitive to pressure from Russia or Iran to modify its commitment to NDN, but has not alluded to such pressure to date. Answers to specific questions follow.
End Summary.

[1](#)2. (C) PLEASE DESCRIBE HOST COUNTRY LEADER VIEWS ON THE US MILITARY LOCAL PURCHASE PLAN'S PROGRESS AND BENEFIT TO THE HOST COUNTRY'S ECONOMY. HOW SATISFIED ARE HOST COUNTRIES WITH THIS PROGRAM?

Local purchasing plans have not been easy to implement in Azerbaijan. Following the visit of TRANSCOM Commander GEN McNabb in November 2008, DLA sent a team to survey the local market, which found that local prices for priority goods were non-competitive. This is a function of two tendencies in the Azerbaijani economy: the strength of the local currency (manat) versus USD, and the existence of local monopolies - usually alleged to be under the control of government officials - that function to limit variety locally, reduce the quality of local products and drive up the prices of imports.

At the November 4 U.S.-Azerbaijan Security Dialogue in Washington, Deputy Minister of Foreign Affairs Araz Azimov told PM A/S Shapiro that Azerbaijani businesses, encouraged by talk of commercial opportunities created by NDN, have been disappointed as they have now been told that their products are substandard and all purchasing is being done from US firms (Reftel B).

The Embassy believes that the initial market research was not exhaustive and that some purchasing here is possible. Even if Azerbaijan is not price competitive, at least one successful purchase case could weaken criticism that the U.S. has not made good on its attractive offer of buying local in Azerbaijan. If successful, a test case may serve as a catalyst for further development of competitive products here.

13. (S) PLEASE DESCRIBE ANY INSTANCES OF HOST COUNTRY GRAFT AND CORRUPTION IN THE US LOCAL PURCHASE PLAN, INCLUDING ANY INDICATIONS THAT HOST COUNTRY SENIOR LEADERSHIP IS INVOLVED. WHO IN THE HOST COUNTRY - LEADERS, MINISTRIES, CLANS - BENEFITS THE MOST?

As indicated in paragraph 2, local purchasing has not been a part of Azerbaijan's participation in NDN. However, corruption is a major factor in the artificially high market prices noted by DLA. The business networks that orchestrate and benefit from corruption tend to be organized under the patronage of senior government officials of various Ministries, senior personages in the Presidential

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Administration, and relatives of the President. Additionally, local and foreign businesses in Azerbaijan complain of corruption and inefficiency within the ranks of Azerbaijani State Customs and the State Border Services.

14. (C) HOW DO HOST COUNTRIES' LEADERS VIEW EXPANDING THE NDN TO INCLUDE TRANSITING MILITARY SUPPLIES CONSIDERED "LETHAL"?

The USG has not asked the Azerbaijani government officially to consider the expansion of NDN to lethal cargo. President Aliyev, however, has mentioned to high level visitors in passing that all cargo, including lethal materials, could be considered (Reftel C). Embassy notes that an official approach to Azerbaijan on this subject, the President's comments notwithstanding, would be difficult to implement, given the current bilateral atmosphere and the pressure from Azerbaijan's neighbors. At a minimum, Azerbaijan could seek to link its acquiescence to one of its priority deliverables, such as an effort to repeal Section 907 of the Freedom Support Act. Even in the best case, i.e. if Baku were inclined to agree on the merits, it would likely defer its final decision while watching to see how downstream countries such as Kazakhstan and Turkmenistan responded to the same request.

Baku would also be very sensitive to pressure from Russia and Iran if it consented to lethal transit within the NDN framework. The Azerbaijanis' reaction when the idea of NATO AWACS overflight was floated in Brussels in late August 2009, as well as the skittishness of the Foreign Ministry in April 2009 over approval of the REGIONAL RESPONSE 09 military exercise, and the ongoing example of the MFA's stubborn resistance to a train-and-equip program linked to an expanded deployment all suggest that Azerbaijan's enthusiasm for overt signs of increasing closeness to the United States is waning. Azerbaijan, nonetheless, continues to allow overflights of U.S. military aircraft. In the twelve month period ending October 31, 2009, over 3,800 overflights carrying nearly 115,000 personnel and including hazardous cargo, have taken place.

15. (C) PLEASE DESCRIBE ANY EXTERNAL POLITICAL OR ECONOMIC PRESSURE FROM RUSSIA, CHINA, ETC. TO ALTER OR TERMINATE

PARTICIPATION IN THE NDN.

Embassy is unaware of direct pressure applied by any of the above countries on Azerbaijan to cease or alter its support to NDN. However, as a much smaller neighbor of Russia and Iran, Azerbaijan is certainly vulnerable. If Azerbaijan believes that the United States is pushing the Turkey-Armenia process forward at the expense of its interests, it would not be hard to envision Moscow taking advantage of Azerbaijan's resentment to exert influence over its level of cooperation.

16. (S) WHAT PLANS DO HOST COUNTRIES HAVE IN PLACE FOR RESPONDING TO ATTACKS AGAINST COALITION SUPPLY LINES? HOW WOULD TERRORIST ATTACKS OR OTHER SABOTAGE INCIDENTS AGAINST SUPPLY LINES INFLUENCE THE HOST COUNTRY'S RESOLVE TO CONTINUE PARTICIPATING IN THE NDN?

NDN surface routing across Azerbaijan utilizes the only east-west highway/railroad system in the country; likewise Baku is the only significant commercial seaport. Therefore, NDN cargo moves along a route of national importance that the GOAJ would be inclined to protect in any case. Azerbaijani domestic security is professional, well-trained and competent.

Recently, the Foreign Minister explained to visiting DASD Celeste Wallander (Reftel D) that Azerbaijan's reluctance to allow DOD to assess Heydar Aliyev airport in Baku for expanded refueling and cargo operations was based on an increasing perception of a terrorist threat to Azerbaijani civilian infrastructure that had been made available to American armed forces.

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The effect of a terrorist attack on NDN infrastructure on Azerbaijan's will to participate would depend on the scale of the attack and the government's ability to control information about it. If the GOAJ were confident that it had arrested or killed the perpetrators, if the attack resulted in damage below a certain threshold and the details of the attack could be kept out of the media, Baku's willingness to continue would likely remain high. Absent those conditions, it is difficult to predict what the government's response would be, though its appraisal of the likelihood of future attacks would figure prominently in its reasoning.

17. (S) WHAT ARE THE MOST VULNERABLE POINTS - POLITICAL, ECONOMIC, SOCIAL OR PHYSICAL INFRASTRUCTURE - IN THE HOST COUNTRY THAT, IF CHALLENGED, WOULD AFFECT ITS WILLINGNESS TO CONTINUE NDN COOPERATION WITH THE US?

--Political Risks--

Embassy believes that the key vulnerability is political and potentially extends to many areas of cooperation, not just NDN. There is a real chance that Baku will look for ways to retaliate against Washington if Turkey ratifies the Armenian protocols and opens the border without waiting for concessions from Yerevan on Nagorno-Karabakh, and Azerbaijan blames U.S. pressure for Ankara's betrayal of its interests. Conversely, Azerbaijan could seek to move in solidarity with Turkey, should the United States Congress adopt a genocide resolution (either in response to Turkish delay in ratifying the Armenia protocols, or independent of that process altogether), and Ankara aim to retaliate. Although the GOAJ has not threatened it directly, it is conceivable that cooperation on NDN could be affected in either scenario. The hazard to NDN would increase if the Turkey-Armenia process motivated Azerbaijan to pursue closer cooperation with Moscow as a way to punish Ankara and cut Turkey out of the development of its natural gas sector. In that case the value of the Azerbaijani portion of the Black Sea route, which comes in significant part from its avoidance of Russian territory, would be attenuated.

--Economic Risks--

The single, small seaport in Baku is under threat from encroachment by developers. A new seaport was supposed to have been built near Alat, but that project has been delayed for various reasons, including the global financial crisis, and inability to find a willing foreign partner. According to the Defense Attache Office, the new seaport project is moving forward and a tender for construction will be issued in the beginning of 2010. It is unlikely that the new seaport will be operational before 2013. The existing seaport has already lost territory due to development of a massive commercial business and residential complex. Further, port authorities are not investing in the port,s infrastructure in anticipation of their move to Alat. There could come a time in the next two-three years where the old port will require financial support to remain open before the new port is open. The existing dry goods cargo terminal at the seaport would be closed if it were not for NDN cargos. Roughly 96 percent of the container traffic through the terminal is NDN related, according to port officials.

--Infrastructure Risks--

Similarly, the trains and rail infrastructure used to transport NDN containers is old and not very robust. A new highway linking the border with Georgia and Baku is nearly complete, however, and it is worth investigating the option of truck transport to compensate for possible rail outages or degradation.

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